

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Fowlerville Area Fire Authority</b>	County <b>Livingston</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>10/5/05</b>	Date Accountant Report Submitted to State: <b>12/7/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Abraham &amp; Gaffney, P.C.</b>			
Street Address <b>3511 Coolidge Road, Suite 100</b>	City <b>East Lansing</b>	State <b>MI</b>	ZIP <b>48823</b>
Accountant Signature <i>Abraham &amp; Gaffney, P.C. David M. Stora</i>		Date <b>12/7/05</b>	

**Fowlerville Area Fire Authority  
Fowlerville, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2005**

Fowlerville Area Fire Authority

Fowlerville, Michigan

June 30, 2005

AUTHORITY BOARD MEMBERS AND ADMINISTRATION

Mr. Roy DeGroot	Chair
Mr. Wayne Copeland	Vice-Chair
Ms. Cindy Denby	Treasurer
Mr. Eric West	Secretary
Mr. John Wright	Fire Chief
Ms. Julie Woodward	Secretary to the Board

Fowlerville Area Fire Authority

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Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT**

Members of the  
Fowlerville Area Fire Authority  
Fowlerville, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Fowlerville Area Fire Authority as of and for the six months ended June 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Fowlerville Area Fire Authority as of June 30, 2005, and the respective changes in financial position, thereof for the six months then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 5, 2005

# **Fowlerville Area Fire Authority**

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## **Management's Discussion and Analysis**

### **Overview**

Starting with the first period of its operations, the six month period ended June 30, 2005, the Fowlerville Area Fire Authority, (the "Authority") has presented its financial statements in conformity with standards set by the Governmental Accounting Standards Board (GASB). The intent of these standards is to provide citizens, taxpayers, customers, and investors with a better understanding of how the Authority's money and other assets are managed.

The standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Authority. The standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Authority's financial status. Through this comprehensive reporting of assets and liabilities, the reader will have a greater understanding of the Authority's financial health.

The discussion and analysis of financial performance provides an overview of the Authority's financial activities for the six month period ended June 30, 2005. Please read it in conjunction with the Authority's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the period ended June 30, 2005:

- The assets of the Authority exceeded its liabilities at the close of the period by \$1,944,693 (net assets).
- The Operating Fund finished the period with an ending fund balance of \$560,107.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Fowlerville Area Fire Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the period, as well as how much is available for future spending. Fund financial statements also report the operations of the Fowlerville Area Fire Authority in more detail than the government-wide financial statements by providing information about the Authority's fund.

# Fowlerville Area Fire Authority

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## Management's Discussion and Analysis

### The Authority as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2005. A comparative analysis of this data will be presented in future years when the information is available.

<b>Assets</b>	
Current assets	\$ 617,934
Capital assets, net	<u>1,875,463</u>
Total assets	2,493,397
<b>Liabilities</b>	
Current liabilities	107,740
Noncurrent liabilities	<u>440,964</u>
	548,704
<b>Net Assets</b>	
Invested in capital assets, net of related debt	1,505,463
Unrestricted	<u>439,230</u>
Total net assets	<u>\$ 1,944,693</u>

The Authority's total net assets were \$1,944,693 at June 30, 2005. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$552,936 at the end of the fiscal year. The net assets invested in capital assets were at \$1,391,757. The management's discussion and analysis will present a condensed comparative statement of net assets next year when we have two fiscal periods of statements in the GASB Statement No. 34 format.

The following table shows the changes in net assets during the current period. Future reports will provide comparative data for the statement of activities. Comparative data is not required during the first year of reporting under requirements of GASB Statement No. 34.

<b>Revenue</b>	
Program revenue:	
Charges for services	\$ 7,646
Operating grants and contributions	251,845
Capital grants and contributions	1,539,310
General revenue:	
Property taxes	453,345
Other revenue	<u>3,441</u>
Total revenue	2,255,587
<b>Program Expenses</b>	
Public safety	295,268
Interest on long-term debt	<u>15,626</u>
Total expenses	<u>310,894</u>
<b>Change in Net Assets</b>	<u>\$ 1,944,693</u>

# **Fowlerville Area Fire Authority**

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## **Management's Discussion and Analysis**

### **Governmental Activities**

The Authority's governmental revenues totaled \$2,255,587 with the greatest revenue source being capital contributions from the constituent municipalities. Capital contributions from the constituent municipalities make up approximately 69 percent of total governmental revenue.

The Authority incurred expenses of \$310,894 during the six month period. As a special purpose government, most of the governmental expenses incurred are associated with the public safety function, however, some expenditures were incurred for interest payments on long-term debt.

### **The Authority's Fund**

The analysis of the Authority's fund begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the individual fund, not the Fowlerville Area Fire Authority as a whole. The Fowlerville Area Fire Authority's Board of Trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Authority's only fund for the six month period ended June 30, 2005 was the General (Operating) Fund.

The General Fund pays for the Authority's governmental services. The sole service provided during the fiscal period was emergency management, which incurred expenditures of \$156,170.

### **General Fund Budgetary Highlights**

Over the course of the period, the Authority Board did not make any significant budget adjustments to expenditures during the period, and made a minor amendment to anticipate interest revenue. Over the course of the next fiscal year, the Authority Board will make any necessary budget amendments to fund unexpected expenditures as they arise.

The Board stayed within the budgeted expenditures for the period, and had a total favorable budget variance of \$444,046 for the six months ended June 30, 2005.

### **Capital Asset and Debt Administration**

At the end of the fiscal period, the Authority had \$1,875,463 invested in land, buildings, equipment, and emergency service vehicles (net of accumulated depreciation). The assets were transferred to the Authority from the constituent municipalities upon formation of the Authority.

The Authority assumed a liability from Handy Township for the 2002 general obligation bonds in the amount of \$370,000, which is due and payable through October 1, 2017. The Authority will make its first payment in the next fiscal year in the amount of \$20,000, which is shown as a current liability in the government-wide statement of net assets. The remaining balance of \$350,000 is shown as a long-term liability.

The Authority also issued four (4) notes payable to Howell and Cohoctah Townships, totaling \$113,706. These notes represent a repayment to the townships for equipment and capital given to the Authority. Each note is due and payable through January 20, 2010. Payments are scheduled to begin in the next fiscal year, in the amount of \$22,742.

### **Contacting the Authority's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Authority's finances and demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village of Fowlerville bookkeeper at 517-223-3771.



## **BASIC FINANCIAL STATEMENTS**

Fowlerville Area Fire Authority

STATEMENT OF NET ASSETS

June 30, 2005

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 617,934
Noncurrent assets	
Capital assets not being depreciated	240,000
Capital assets being depreciated	<u>1,635,463</u>
Total noncurrent assets	<u>1,875,463</u>
<b>TOTAL ASSETS</b>	<u>2,493,397</u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	19,126
Due to other governmental units	38,265
Accrued liabilities	436
Accrued interest payable	7,171
Current portion of long-term debt	<u>42,742</u>
Total current assets	107,740
Noncurrent liabilities	
Noncurrent portion of long-term debt	<u>440,964</u>
<b>TOTAL LIABILITIES</b>	<u>548,704</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,505,463
Unrestricted	<u>439,230</u>
<b>TOTAL NET ASSETS</b>	<u><u>\$ 1,944,693</u></u>

See accompanying notes to financial statements.

Fowlerville Area Fire Authority

STATEMENT OF ACTIVITIES

Six Months Ended June 30, 2005

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
Public safety	\$ 295,268	\$ 7,646	\$ 251,845	\$ 1,539,310
Interest on long-term debt	15,626	-	-	-
	<u>\$ 310,894</u>	<u>\$ 7,646</u>	<u>\$ 251,845</u>	<u>\$ 1,539,310</u>
				1,487,907
			General revenues	
			Property taxes	453,345
			Miscellaneous	3,441
			<u>CHANGE IN NET ASSETS</u>	<u>1,944,693</u>
			Net assets, beginning of period	-
			Net assets, end of period	<u>\$ 1,944,693</u>

See accompanying notes to financial statements.

Fowlerville Area Fire Authority

GOVERNMENTAL FUND BALANCE SHEET

June 30, 2005

	<u>General</u>
ASSETS	
Cash and cash equivalents	<u>\$ 617,934</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 19,126
Due to other governmental units	38,265
Accrued liabilities	<u>436</u>
TOTAL LIABILITIES	57,827
FUND BALANCE	
Reserved for future purchases	296,942
Unreserved	
Undesignated	<u>263,165</u>
TOTAL FUND BALANCE	<u>560,107</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 617,934</u>

See accompanying notes to financial statements.

Fowlerville Area Fire Authority

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2005

**Fund balance - governmental fund** **\$ 560,107**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 1,945,550	
Accumulated depreciation is	<u>(70,087)</u>	
		1,875,463

Long-term liabilities, are not due and payable in the current period and therefore  
are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds and notes payable	483,706	
Accrued interest payable	<u>7,171</u>	
		<u>(490,877)</u>

**Net assets of governmental activities** **\$ 1,944,693**

See accompanying notes to financial statements.

Fowlerville Area Fire Authority

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Six Months Ended June 30, 2005

	<u>General</u>
REVENUES	
Property taxes	\$ 453,345
Intergovernmental - local	251,845
Charges for services	7,646
Interest	<u>3,441</u>
TOTAL REVENUES	716,277
EXPENDITURES	
Current	
Salaries and wages	54,887
Fringe benefits	4,141
Supplies	8,141
Contractual services	5,305
Permits	1,383
Insurance	30,042
Repairs and maintenance	1,755
Utilities	6,278
Training	2,309
Other	473
Debt service	8,455
Capital outlay	<u>33,001</u>
TOTAL EXPENDITURES	<u>156,170</u>
EXCESS OF REVENUES OVER EXPENDITURES	560,107
Fund balance, beginning of period	<u>-</u>
Fund balance, end of period	<u><u>\$ 560,107</u></u>

See accompanying notes to financial statements.

Fowlerville Area Fire Authority

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Six Months Ended June 30, 2005

**Net change in fund balance - governmental fund** **\$ 560,107**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital contributions, net of related debt assumed	\$ 1,539,310	
Capital outlay	36,240	
Depreciation expense	<u>(70,087)</u>	
 Excess of capital contributions and capital outlay over depreciation expense		 1,505,463

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in the governmental fund, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.

In the current year, these amounts consist of:

(Increase) in long-term debt	(113,706)	
(Increase) in accrued interest payable	<u>(7,171)</u>	
		<u>(120,877)</u>

**Change in net assets of governmental activities** **\$ 1,944,693**

See accompanying notes to financial statements.

Fowlerville Area Fire Authority  
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE A: DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Fowlerville Area Fire Authority was created on January 1, 2005 by a joint venture agreement between the Townships of Handy, Iosco, and Conway and the Village of Fowlerville. The Authority is considered a Municipal Emergency Service Authority as provided in the Emergency Services to Municipalities Act, 1988 PA57, MCL 124.601. The remaining formation and operating guidelines, etc. are detailed in the Authority's Articles of Incorporation and Bylaws and are maintained in the Authority's administrative offices. Each Township appoints one (1) member and the Village appoints one (1) member to the Board. The Chief oversees the day-to-day operations of the Authority.

The Authority has no stockholders and all monies received are to be used for certain specified purposes in accordance with the joint venture agreement between the constituent municipalities.

The Authority is intended to operate as much as possible from funds and income derived from operations. However, each township is responsible for remitting the portion of the fire authority property tax levy collected to the Authority. Other responsibilities including insurance coverage and procedures for termination of services are explicitly detailed in the joint venture agreement, bylaws, and articles of incorporation of the Authority.

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Fowlerville Area Fire Authority. The Fowlerville Area Fire Authority is considered a "joint venture" of the constituent municipalities.

2. Basis of Presentation

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities (the government-wide statements) present information for the Authority as a whole.

The statement of activities presents the direct functional expenses of the Authority and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes taxes, interest, and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

**FUND FINANCIAL STATEMENTS**

The fund financial statements present the Authority's individual major fund. The major fund of the Authority is:

- a. The General (Operating) Fund is the used to account for all financial resources to be used for fire protection services provided to each participating municipality.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.



NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE A: DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Measurement Focus - continued

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Authority before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, charges for services, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of checking account and pooled investment funds. Cash equivalents are recorded at market value.

6. Capital Assets

Capital assets include land, buildings and improvements, vehicles and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	10-20 years
Vehicles	7-20 years
Equipment	5-20 years

Fowlerville Area Fire Authority  
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE A: DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**7. Property Taxes**

The participating Townships levy and collect property taxes for the Authority. As the Fire Authority tax is collected it is remitted by the Township Treasurers. At March 1 each year the Townships settle their delinquent taxes with the County Treasurer and the unpaid real property tax is remitted to the Authority by the County Treasurer in Livingston County. Delinquent personal property taxes are retained by the Township Treasurers for subsequent collection. The property taxes levied December 1 are accrued as current tax receivable with the appropriate deferral and are budgeted as revenue in the subsequent year. For the six months ended June 30, 2005, the Townships levied 1.1000 mills. The total Taxable Value for the 2004 levy for property within the Township was \$413,157,879.

**8. Budgets and Budgetary Accounting**

The General (Operating) Fund budget shown as required supplementary information to the financial statements was prepared on a basis not significantly different than the basis used to reflect actual results.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to July 1, the budget is legally adopted on a fund level through passage of a Board resolution. After the budget is adopted all transfers of budgeted amounts between activities, or any revisions that alter the total expenditures of the fund or activity must be approved by the Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Board does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Board during the year. Individual amendments were appropriately approved by the Board as required.

**NOTE B: CASH AND CASH EQUIVALENTS**

Fowlerville Area Fire Authority's deposits consist of a checking account and a money market fund, which are reported as cash on the Balance Sheet and Statement of Net Assets.

In accordance with Michigan Compiled Laws, the Fowlerville Area Fire Authority is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

Fowlerville Area Fire Authority  
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits of the Fowlerville Area Fire Authority are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Fowlerville Area Fire Authority.

**Deposits**

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2005, the carrying amount and bank balance for the deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 304	\$ 92,311

The bank balance as of June 30, 2005 was fully insured by the FDIC.

Due to significantly higher cash flow at certain periods during the year, the amount the City held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

As of June 30, 2005, the carrying amount and market values for each investment are as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
Bank One - Government Op Money Market	\$ 617,630	\$ 536,381	39 days

Fowlerville Area Fire Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2005, the Authority's investment in uncategorized pooled investments was rated Aaa by Moody's.

Interest rate risk

The Authority has not adopted a policy that indicates how the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Authority has not adopted a policy that indicates how the Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Authority has not adopted a policy that indicates how the Authority will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the six months ended June 30, 2005 was as follows:

	Balance January 1, 2005	Additions	Deletions	Balance June 30, 2005
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ -	\$ 240,000	\$ -	\$ 240,000
Capital assets being depreciated				
Buildings and improvements	-	1,255,080	-	1,255,080
Equipment	-	198,253	-	198,253
Vehicles	-	252,217	-	252,217
Subtotal	-0-	1,705,550	-0-	1,705,550
Less accumulated depreciation for:				
Buildings and improvements	-	( 33,002 )	-	( 33,002 )
Equipment	-	( 23,786 )	-	( 23,786 )
Vehicles	-	( 13,299 )	-	( 13,299 )
Subtotal	-0-	( 70,087 )	-0-	( 70,087 )
Net capital assets being depreciated	-0-	1,635,463	-0-	1,635,463
Capital assets, net	\$ -0-	\$ 1,875,463	\$ -0-	\$ 1,875,463

Fowlerville Area Fire Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE D: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the Authority for the six months ended June 30, 2005.

	Balance January 1, 2005	Additions	Deletions	Balance June 30, 2005	Amount due within one year
2002 G.O. Bonds	\$ -0-	\$ 370,000	\$ -	\$ 370,000	\$ 20,000
Notes payable					
Howell Township	-0-	51,073	-	51,073	10,215
Cohoctah Township	-0-	62,633	-	62,633	12,527
	<u>\$ -0-</u>	<u>\$ 483,706</u>	<u>\$ -0-</u>	<u>\$ 483,706</u>	<u>\$ 42,742</u>

Significant details regarding outstanding long-term debt are presented below:

\$400,000 Township of Handy General Obligation Bonds, assumed by the Authority upon formation with outstanding principal of \$370,000, dated September 24, 2002, payable in annual installments ranging from \$20,000 to \$40,000 through October, 1 2017 with interest of 4.450% payable semi-annually. \$ 370,000

**Notes Payable**

\$23,566 note payable to Howell Township dated March 29, 2005, payable in annual installments of \$4,713 through January 20, 2010, with interest of 5.625% payable annually. \$ 23,566

\$27,507 note payable to Howell Township dated March 29, 2005, payable in annual installments of \$5,501 through January 20, 2010, with interest of 5.625% payable annually. 27,507

\$ 51,073

\$42,985 note payable to Cohoctah Township dated March 29, 2005, payable in annual installments of \$8,597 through January 20, 2010, with interest of 5.625% payable annually. \$ 42,985

\$19,648 note payable to Cohoctah Township dated March 29, 2005, payable in annual installments of \$3,930 through January 20, 2010, with interest of 5.625% payable annually. 19,648

\$ 62,633

The annual requirement to pay the debt principal and interest outstanding for the Long-Term Debt is as follows:

Year Ending June 30,	<u>General Obligation Bonds</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 20,000	\$ 16,190	\$ 22,742	\$ 6,573
2007	20,000	15,300	22,742	5,257
2008	20,000	14,410	22,742	3,943
2009	25,000	13,409	22,742	2,629
2010	25,000	12,296	22,738	1,315
2011-2015	150,000	42,903	-	-
2016-2018	<u>110,000</u>	<u>6,211</u>	<u>-</u>	<u>-</u>
	<u>\$ 370,000</u>	<u>\$ 120,719</u>	<u>\$ 113,706</u>	<u>\$ 19,717</u>

Fowlerville Area Fire Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE E: RISK MANAGEMENT**

The Authority is exposed to various risks of loss including accidental death, dismemberment, disability, medical expense benefit; errors and omissions; blanket accident; firefighter accident; and workers' compensation for which the Authority carries commercial insurance.

**NOTE F: FUND EQUITY RESERVES**

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditure or has been legally segregated for a specific use.

The following is the fund balance reserve as of June 30, 2005:

Reserved for future purchases	<u>\$ 296,942</u>
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## **REQUIRED SUPPLEMENTARY INFORMATION**

Fowlerville Area Fire Authority

Special Revenue Fund

BUDGETARY COMPARISON SCHEDULE

Six Months Ended June 30, 2005

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 454,474	\$ 454,474	\$ 453,345	\$ (1,129)
Intergovernmental - local	-	-	251,845	251,845
Charges for services	30,534	30,534	7,646	(22,888)
Interest	-	150	3,441	3,291
TOTAL REVENUES	485,008	485,158	716,277	231,119
EXPENDITURES				
Current				
Salaries and wages	128,400	128,400	54,887	73,513
Fringe benefits	9,899	9,899	4,141	5,758
Supplies	35,570	35,570	8,141	27,429
Contractual services	14,100	14,100	5,305	8,795
Permits	2,000	2,000	1,383	617
Insurance	32,938	32,938	30,042	2,896
Repairs and maintenance	11,500	11,500	1,755	9,745
Utilities	13,828	13,828	6,278	7,550
Training	10,000	10,000	2,309	7,691
Medical examinations	6,000	6,000	-	6,000
Other	1,862	1,862	473	1,389
Debt service	51,000	51,000	8,455	42,545
Capital outlay	52,000	52,000	33,001	18,999
TOTAL EXPENDITURES	369,097	369,097	156,170	212,927
EXCESS OF REVENUES OVER EXPENDITURES	115,911	116,061	560,107	444,046
Fund balance, beginning of year	-	-	-	-0-
Fund balance, end of year	\$ 115,911	\$ 116,061	\$ 560,107	\$ 444,046



Principals

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Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
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MANAGEMENT LETTER

To the members of the Fowlerville Area Fire Authority  
Fowlerville, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of Fowlerville Area Fire Authority for the six months ended June 30, 2005. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the Authority's internal controls and our discussions with management.

1. The Authority should consider adopting additional administrative policies and procedures.

Based on our discussions with management, we noted that the Authority has not formally adopted written procedures and policies for several areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we suggest that the Authority develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Disaster recovery plan - We suggest the Authority adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Authority and detail how the Authority would continue to operate in the absence of those critical areas of operation.
- b. Code of conduct - We suggest the Authority adopt a code of conduct. The code should include a policy on conflicts of interest and the Authority should require employees and Board members to periodically make a declaration of compliance.
- c. Personnel policy - We suggest the Authority review their personnel policies. The policy should address the issue of background checks on all potential employees, formal job descriptions for key employees, and a requirement of mandatory vacations for employees in positions of financial trust, with those duties performed by another employee during that absence.
- d. Accounting policies and procedures manual - We suggest the Authority formally document any accounting procedures that are currently in place and supplement this with any policies that may be required to support those procedures. These policies and procedures should include cash receipt and disbursement procedures, payroll procedures, criteria for establishing a fund, specific activities to be accounted for in each fund, any closing procedures necessary for the preparation of monthly/annual financial statements, purchasing, and obtaining competitive bids.
- e. Record retention policies - We suggest the Authority adopt record retention policies to assure that documentation is retained for an appropriate length of time for audit purposes and for purposes of satisfying any potential Freedom of Information Act requests.
- f. Employee dishonesty insurance - We suggest the Authority consider obtaining bonding insurance for all individuals who handle cash for the Authority. By obtaining bonding insurance, the Authority would limit the amount of any potential losses.
- g. Organizational Chart - We suggest the Authority develop a formal organizational chart in order to clearly delineate authority and responsibility internally.

2. The Authority should establish a dollar threshold to record significant assets purchased.

The Authority implemented Governmental Accounting Standards Board Statement 34 (GASB 34), which requires (among other things) that capital assets be recorded and depreciated in a new set of full-accrual basis "government-wide" financial statements. During the implementation of this new reporting model, we noted that the Authority does not have a policy in place to specify a dollar threshold to define long-lived assets that would be capitalized and depreciated in the financial statements.

During its formation process, the Authority hired asset appraisal companies to compile the capital asset and depreciation information. The appraisals showed all assets of the Authority that were considered to be long-lived as capital assets, regardless of historical cost. These assets are all capitalized and depreciated in the Authority's financial statements for June 30, 2005. While this is an acceptable approach to take, GASB 34 requires the Authority to capture only its more significant assets. GASB 34 allows each government to decide how to define which assets are significant enough to be capitalized and depreciated for the financial statements in order to reduce the administrative burden of the requirement.

We suggest the Authority review the appraisal and adopt a capitalization threshold policy that would define assets that are to be included in the financial statements as capital assets. At the Authority's option, this policy may be applied retroactively to the current asset list or it may be applied for future purchases only.

3. The Authority should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Authority may not have sufficient segregation of duties in its accounting structure. Specifically, we noted that the receipt process is completed by the Treasurer, who receives the money, prepares the bank deposit, makes the bank deposit, and reconciles the bank account. Also, we noted that the completed bank reconciliation is not reviewed or approved at a supervisory level. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.).

While this is a common occurrence in small organizations due to the limited number of employees, the Authority should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the Authority review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Authority provide a greater review and supervision of employee functions and procedures. We also suggest that in the future when the Authority is adopting new or modifying existing financial policies they consider the issue of fraud, and assure that the policy discusses ways that will prevent, deter, and detect fraud within the area the policy is addressing.

4. The Authority should maintain proper records of cash receipts and deposits.

During our testing of the receipts process, we noted that the Authority did not retain supporting documentation for the amounts received. In five (5) separate instances daily receipts selected from the receipt books could not be traced back to supporting documentation at the Authority. Maintaining appropriate documentation of cash receipts is a key internal control activity. A clear trail should exist from the point of collection through to the deposit.

We suggest the Authority review receipt procedures to ensure that all supporting documentation is maintained.

5. The Authority should adopt an investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the Authority has not adopted an investment policy to addresses the reporting requirements of GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Authority's fund. These resources are necessary for the delivery of the Authority's services and programs. Effective for the period ended June 30, 2005, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Authority's ability to provide services and meet its obligations as they become due.

We suggest the Authority adopt an investment policy to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the Authority's financial statements by GASB Statement No. 40.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated October 5, 2005.

This report is intended solely for the use of management and the Board of Trustees of the Fowlerville Area Fire Authority and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 5, 2005